

## **Think flood insurance is pricey now? Premium hikes were coming long before Hurricane Helene.**

Morningstar

Homeowners insurance typically does not cover flood damage – though too many people discover that after the fact, consumer advocates say

Hurricane Helene inundated parts of Florida, Georgia, Tennessee and the Carolinas, and now the estimated billions of dollars in damage are bringing Americans’ receding flood-insurance coverage into focus.

As the costs of flood coverage and homeowners insurance increase, people are dropping flood policies when they can in order to help stretched budgets, consumer advocates and insurance-industry experts say.

If price increases continue at the same pace, many flood-insurance policies will not be getting more affordable anytime soon. In many cases, prices may have a long march higher during an increasingly bad time to forego coverage, as climate change helps intensify storms.

While people buying homes in high-risk flood zones are required to have flood coverage, one cruel twist of Hurricane Helene was its power to soak areas that have generally escaped serious flooding risks.

The full view of Helene’s devastation is still unfolding, especially in western North Carolina. The death toll exceeded 150 as of Monday afternoon, according to the Associated Press.

Insurance costs may seem like a lower priority in such a dire situation. Yet GoFundMe pages seeking help with the recovery ahead have sprung up: Homeowners insurance typically does not cover flood damage,

though too many people discover that after the fact, according to consumer advocates.

“If flood [insurance] is an elective, not a mandatory,” said Amy Bach, executive director of the nonprofit United Policyholders, people “are going to drop it to just to keep their home insured for the basics.”

There’s a crisis of availability for flood insurance now, she added. “If you get a flood quote and it’s north of \$500, up in the \$1,000s, you’re out. You’re priced out.”

How much does flood insurance cost?

People paid an average of \$888 last year for federally backed flood insurance, according to Policygenius, a rate-comparison site. But costs varied widely, with state averages ranging from around \$400 to \$1,600.

Nationwide, there were approximately 4.64 million flood-insurance policies in force in August, around 67,000 fewer policies than there were a year ago, according to data from the National Flood Insurance Program, which is run through the Federal Emergency Management Agency.

In states such as North Carolina and Georgia, the number of active flood policies dropped by approximately 2% and 3.5%, respectively, the federal data showed. In Florida, the number of policies in force rose by less than 1%.

FEMA says homeowners and renters may be eligible for disaster assistance to help pay for their uninsured losses from Helene. But the government’s financial help doesn’t compare with insurance coverage, Bach said. “It’s a complete, total myth that there’s no reason to buy insurance because the government is going to bail you out,” Bach told MarketWatch. “That is not true.”

“There’s a lot more impact to come,” said Trevor Burgess, the president and CEO of Neptune Flood Insurance, a private insurer in competition with federally backed policies originating with the National Flood Insurance Program. “A lot more people who are going to face a difficult decision: Can I afford to have flood insurance?”

Burgess spoke from St. Petersburg, Fla., where he’s seen “unimaginable destruction.”

Most people buying flood insurance have to do it as a condition of their mortgage because they live in

coastal areas with high flood risks, said Mark Friedlander, director of corporate communications for the Insurance Information Institute, an industry trade group.

“In most of the areas in the Southeast and Appalachia that sustained catastrophic flood damage from Hurricane Helene, the take-up rates for flood insurance are under 1%,” he said.

While around 20% of Florida homeowners have flood insurance, Friedlander said, “take-up rates in the Big Bend region where Helene made landfall are under 5%.”

Flood-insurance rates spotlight “the largest insurance gap in the U.S.,” he said.

Flood insurance is on track for a reckoning

While the private market for flood insurance has increased, Fitch Ratings said, people are typically getting their coverage through the National Flood Insurance Program. The NFIP is run by FEMA, with insurance companies essentially acting as the middleman offering the NFIP coverage.

But decades of NFIP pricing methods put the program – and policyholders – in a tough spot, Burgess said. “They provided a huge subsidy historically, which enabled people to live very cheaply in high-risk areas,” he said.

The NFIP has needed to borrow \$36.5 billion from the Treasury Department since 2005 in order to pay claims that didn’t completely reflect the flood risk, according to a report last year from the watchdog Government Accountability Office.

To better reflect individual property risks, NFIP recently turned to a new way of pricing premiums. The “Risk Rating 2.0” took full effect in early 2022.

Around three-quarters of policyholders are poised for premium increases under the new methods, according to FEMA’s website. At yearly renewal, that will come to an extra \$8 per month, but the costs may be much higher, the site said. Seven percent of policyholders will see \$10 to \$20 monthly increases, and another 4% will pay over \$20 extra per month.

Under federal law, the yearly premium jumps cannot surpass 18%. With the rate-hike caps, it will be

2037 before 95% of the current policies are priced for their full risk, the GAO report said. Those higher premiums will include 9% of policies that will ultimately need to pay over 300% more for the coverage, according to the report.

This is all pushing the way Americans get their flood insurance toward a reckoning, Bach said. There needs to be some fusion of federal, state and private-sector resources, she said; “otherwise, people are just getting priced out, period.”

FEMA representatives did not immediately respond to MarketWatch’s request for comment.

“FEMA recognizes and shares concerns about the cost of flood insurance and how higher premiums can affect communities,” the agency says on a webpage explaining the new pricing methods. Still, the agency adds, FEMA is required to fairly manage risks with premiums based on a property’s “true flood risk.”

FEMA is already settling into its new pricing approach, and one storm isn’t going to upend that process, Burgess said.

But Hurricane Helene is something he and private insurers need to take into consideration when balancing risk and premium prices, Burgess said. “For private insurers, it give us a good sense of what’s in the realm of the possible.”

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